*Retailers still rely heavily on name brands—pp. 19-6*

National
# Home Center News ®

Vol. 10, No. 21 The newspaper for retailers serving homeowners and contractors. Published by Lebhar-Friedman Inc. Oct. 8, 1984

# Wickes surfaces from Chapter 11

### *Creditors to be repaid Dec. 21 and Jan. 26*

**By Brad Altman**
*West Coast Editor*

LOS ANGELES — Federal Bankruptcy Judge William J. Lasarow approved Wickes Cos.' reorganization plan late last month, allowing the parent of Builders Emporium and Wickes Lumber to emerge from Chapter 11 proceedings under the bankruptcy law.

The plan settles the company's $1.3 billion debt that remains from before the April 24, 1982, filing. Now, creditors are slated to receive $299 million in cash on Dec. 21. The balance—about $565 million in face amount of notes and warrants as well as newly issued common stock valued at about $400 million—will then be distributed at Wickes' fiscal year end, Jan. 26, 1985.

Until those securities are issued early next year, the bankruptcy court will have some legal jurisdiction over Wickes, but only on routine matters. The confirmation of the plan Sept. 21 at the U.S. District Courthouse here means "it's over," said Wickes' executive vp and cfo, Wilhelm Mallory. "Today is when we emerge from Chapter 11."

Under the finalized reorganization plan, trade creditors of Wickes Lumber and Builders Emporium will be paid for every $1,000 worth of claims against Wickes, $148 in cash, $132 in short-term (two-year) notes, $359 in 12% notes and 85.7 shares of the company's common stock, worth about $3.25 per share.

"The notes are valued at less than par," explained Wickes' counsel Bernard Shapiro, "so the present value is a little less [then face value]. But for every $1,000 claim, creditors are not doing too badly."

In fact, for every $1,000 claim, this group of creditors will receive cash, notes and stock worth $918 based on the notes' face value and the estimated selling price of the stock.

At the hearing, which lasted nearly four hours, documents were placed into the court record that showed how much cash Wickes would have been likely to raise if it liquidated some of its key subsidiaries under Chapter 7 as opposed to the reorganization route it actually took.

One exhibit gave a rare glimpse at what Wickes' executives consider to be the worth of several of their core businesses. It showed that Wickes believes

*(Continued on page 82)*

# *Outside shareholders pressure Hines board to sell off company*

**By John Caulfield**
*NHCN senior editor*

CHICAGO — The management of Edward Hines Lumber Co., reacting to pressure from outside stockholders who claim its stock price does not adequately reflect its worth, has reluctantly put the company on the block for a possible merger or sale of all or part of its assets.

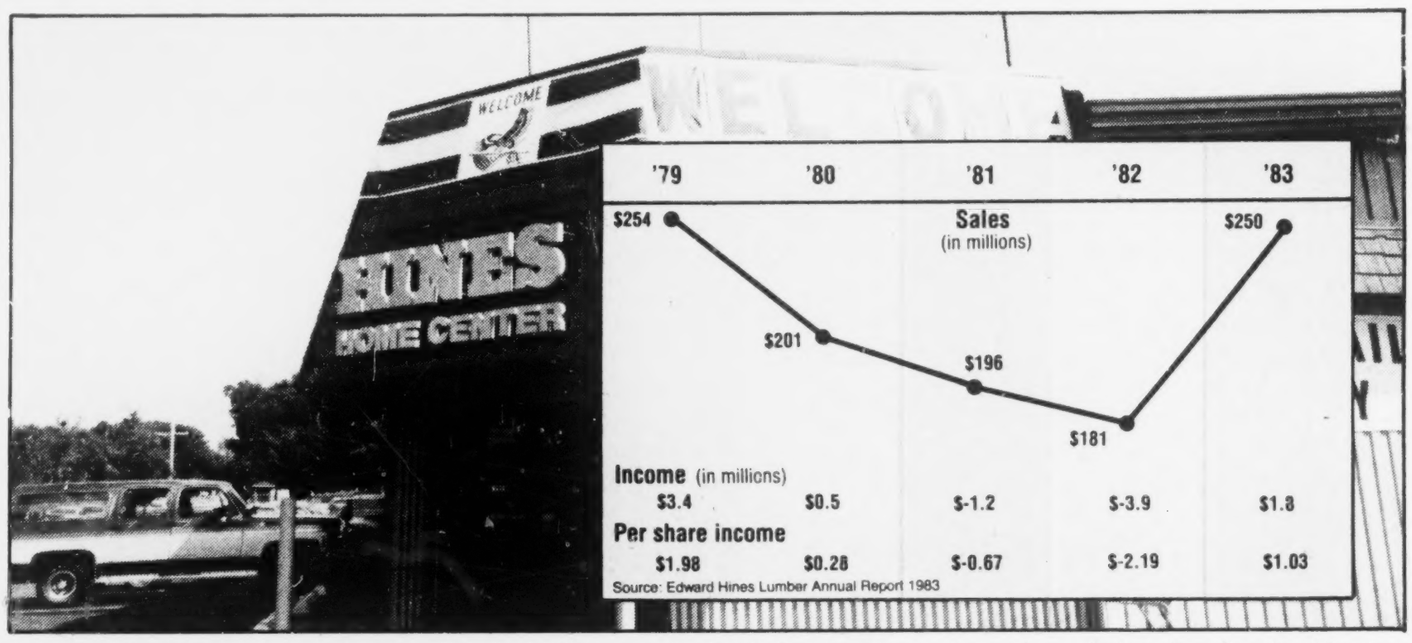
The 92-year-old company, a retailing and wholesaling concern whose 26-unit home center chain produced a third of its $250 million in sales last year, has retained the investment firm Salomon Brothers to assist in this effort, which began on Sept. 13.

"Right now, we're just dipping our toe in the water and exploring all possibilities," said Hines chairman Howell H. Howard. Through Sept. 19 Hines had received no offers, and Howard did not rule out an attempt by the company's management to take one or more of its divisions private.

Howard insisted he was "forced" to put the company on the market in response to a filing made with the Securities and Exchange Commission on June 8 by a group of outside shareholders who collectively own 18.4% of the company's 1.77 million shares of common stock.

In that joint Schedule 13-D filing, the shareholders group—which includes American Securities Corp., Mutual Shares Corp., TBK Partners, and Tweedy Browne Inc., all based in New York—formed a committee for the purpose of "maximiz[ing] the value of its investment in the company and

*(Continued on page 82)*




*Disgruntled Hines shareholders point to this year's 97% first half earnings drop, following five lackluster years, as reasons why the company needs new management.* NHCN photo, chart

2 NEW DALLAS UNITS BRING STORE COUNT TO 9

# *Bowater opens first build-to-suit outlets*

PLANO, Tex. — In a move to enlarge its growing market share in the Dallas-Fort Worth metroplex, Bowater Home Centers last month opened two build-to-suit warehouses—the chain's first attempt at building stores from the ground up.

Previously, Bowater has relied upon retrofitting existing second-use facilities such as ex-Woolcos. Its newest units, in the suburban communities of North Richland Hills and Duncanville, are similar-in-design build-to-suits that will serve as prototypes for Bowater's expansion thrust in 1985.

The two stores bring the chainwide store count to nine, of which six units are in the Dallas-Fort Worth area. The others are in Baton Rouge, La., and Mobile, Ala.

Separately, in the first top management change since Bowater was launched in August 1983, James Sewell, vp-operations, resigned to join four-unit Acme Lumber Centers, San Antonio, Tex., as vp-gm of the family-owned chain. Sewell reported that "major philosophical differences" with Bowater president Ralph Dillon led to his departure. Mark Bar, formerly regional manager for The Home Depot in Phoenix, who joined Bowater in June as regional manager for Bowater units outside Texas, was promoted to fill

*(Continued on page 82)*

# B & B targets Cleveland for warehouse venture

**By Phillip M. Perry**
***NHCN associate editor***

**ST. LOUIS — Now planning its first attack on a major market outside its home city, Eclipse Industries' B & B Home Supply Centers plans to open a 108,000-sq.-ft. warehouse style home center in Cleveland next spring.**

**Expected to be a prototype for additional stores, the new unit is part of a larger plan by the $30 million company to seek a strong role in Cleveland. B & B is currently looking at two or three additional buildings in that city.**

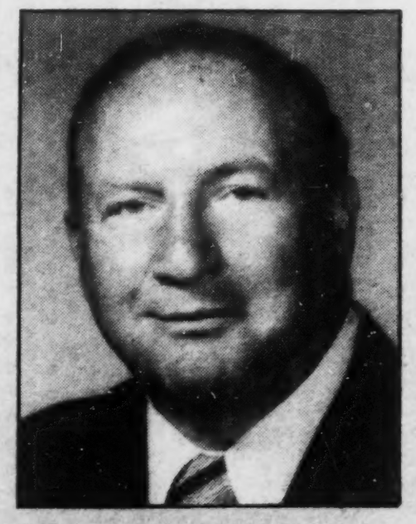
**"Cleveland is a great city, and a good market," said Steve Feinstein, president.**

**Feinstein acknowledged that his company was looking for sites in other cities as well, but offered no comment on whether B & B had formulated a game plan for rolling out stores in major markets.**

*B&B president Steve Feinstein: "Cleveland's a great city, a good market."* NHCN photo

**B & B currently operates six units, five of which are in the St. Louis metropolitan area, and one of which is located Clinton, Iowa, a town near Davenport. The chain's stores total some 200,000 sq. ft. of selling area.**

**In regard to merchandising of the store, Feinstein said that "plans are still being formulated."**



***JOHN WALKER**, a driving force behind Lowe's Cos., died last month at the age of 62.* *. . . . . Page 4*

## NEWSBREAKS

**HELLO, HOW, GOODBY, HOW.** Bill Dorf, who left Rickel about six months ago to join HomeOwners Warehouse as vp-gmm, left HOW on Sept. 21 and plans to open his own business, possibly a patio shop.

**FIRE DELAYS OPENING.** The Oct. 25 debut of HomeOwner's Warehouse's Jacksonville, Fla., store has been postponed by six weeks due to an electrical fire that broke out on the job site last month, damaging the roof and office section of the 80,000-sq.-ft. unit. There was no merchandise or fixtures in the store at the time of the blaze.

## INSIDE:

**HOUSING STARTS** fell in August, the second consecutive monthly decline . . . . . **Page 2**
**PAY 'N SAVE BUYOUT FIGHT** was avoided when the takeover group sweetened the deal late last month . . . . . 3
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## NHCNews Briefs

# Industry Update

### Grace moves back whse debut

NEW YORK — It now appears that W. R. Grace will not open the first store of its newly formed warehouse company until early 1985.

Nevertheless, Grace continues to assemble its management team for the warehouse division. On Sept. 14, it hired Rudy Hunter as its vp-operations, reporting to the division's president Frank Doczi. Hunter had served in a similar capacity at Grossman's in Braintree, Mass.

Also hired to become the first store's manager was Dick Boucher, who had been the manager of HomeOwner's Warehouse's store in Coconut Creek, Fla.

### K mart names new whse markets

TROY, Mich. — Three 80,000-sq.-ft. Builders Square stores will open Oct. 18 in the Chicago Metropolitan Area, marking K mart's inaugural venture into warehouse home center retailing.

BUILDERS SQUARE℠

Later this fall, K mart said it will open one Builders Square in a retrofitted K mart in Tulsa, Okla., and two build-to-suits in Houston. Next year the giant retailer plans as many as six units in the Detroit area and up to six more Builders Square units in the Chicago market.

Separately, shareholders of Home Centers of America were expected to meet Sept. 26 in San Antonio, Tex., to finalize the K mart-HCA merger (*NHCN*, July 16). Approval was expected.

### Payless opens largest unit

DALLAS — Payless Cashways debuted its 148th store here late last month, a remodeled dance hall with a 60,000-sq.-ft. showroom, the largest in the chain.

Payless large-store prototype contains 37,500 sq. ft. of selling space, underscoring the significant departure for the chain at this new southeast Dallas location. However, this unit is not a prototype but rather an opportunistic property in an area that Payless officials said could support a new store.

### Hechinger offering approved

LANDOVER, Md. — Hechinger has received approval for the offering of convertible subordinated debentures that it intends to use in funding its major seven-market expansion planned for next year (*NHCN*, Sept. 24).

The debentures, which are convertible into the company's Class A stock, are available in units of $1,000 that pay semi-annual dividends at 8½% interest.

The debentures are eventually convertible to stock, at $23.50 per share. Hechinger stock was trading at about 19½ late last month.

After payment of appropriate fees, Hechinger is expected to net $85,279,688 from the offering. The underwriters exercised an option to increase the issue from the $75 million originally proposed.

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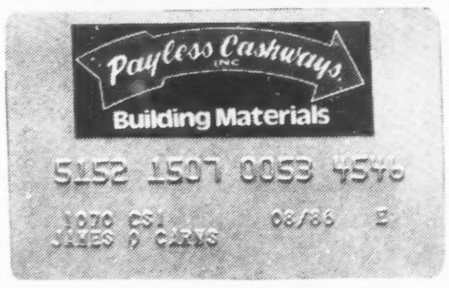
Vol. 10, No. 21 Oct. 8, 1984

# Payless establishing credit card to help boost average ticket sales

KANSAS CITY, Mo. — In an attempt to boost average ticket sales and to increase tradesmen and small contractor business, Payless Cashways is establishing its own credit card.

The 148-unit chain headquartered here continues to offer customers the option of using MasterCard or Visa credit cards for purchases. The new private-label "Project Card" gives customers a separate line of credit.

Promotion of the credit card program through newspaper and in-store signs was launched in Dallas Sept. 9. It was expected to be phased into the company's other regions by the end of September, Jim Neustadt, Payless' advertising director, said.




*Payless is hoping its new credit card will attract more tradesmen and smaller contractor business. Promotion for the program began Sept. 9.*

The first cards are scheduled to be issued to customers this month by Mercantile Trust Co. N.A., St. Louis, the program administrator.

In regions where Payless operates its stores under a different name—Furrow, Lumberjack, Hugh M. Woods, or Somerville—the card logo will be appropriate to the region. Mercantile Trust will stamp the logo over a blank red arrow. The logo will be chosen based on where the person applied for the card.

All five company logos will be

*(Continued on page 80)*

# Housing starts fall for 2nd month; further decline expected this year

WASHINGTON — Housing starts fell for the second consecutive month to a seasonally adjusted rate of 1.53 million units, down 12.8% from July's revised figure of 1.76 million, their lowest point since December 1982 according to the Commerce Department.

Starts are expected to drop still further to between 1.45 million and 1.5 million by the end of the year according to Dean Crist, research economist at the National Assn. of Home Builders. Real GNP fell to 3.6% at the end of the third quarter, indicating a slowing economy.

Building permits, an indicator of future housing activity, fell 3.6% from July's revised figures to a seasonally adjusted rate of 1.5 million units, which is nearly 10% below August 1983. Single family housing permits were down to nearly 12% below last year's figures at 794,000 seasonally adjusted.

Rising interest rates are the main reason for the decline in starts, running at a rate of 14.43% for fixed-rate loans.

"I have always maintained that as rates go up so housing goes down. We are, along with the auto industry, the most credit-sensitive industry in the nation," said Crist.

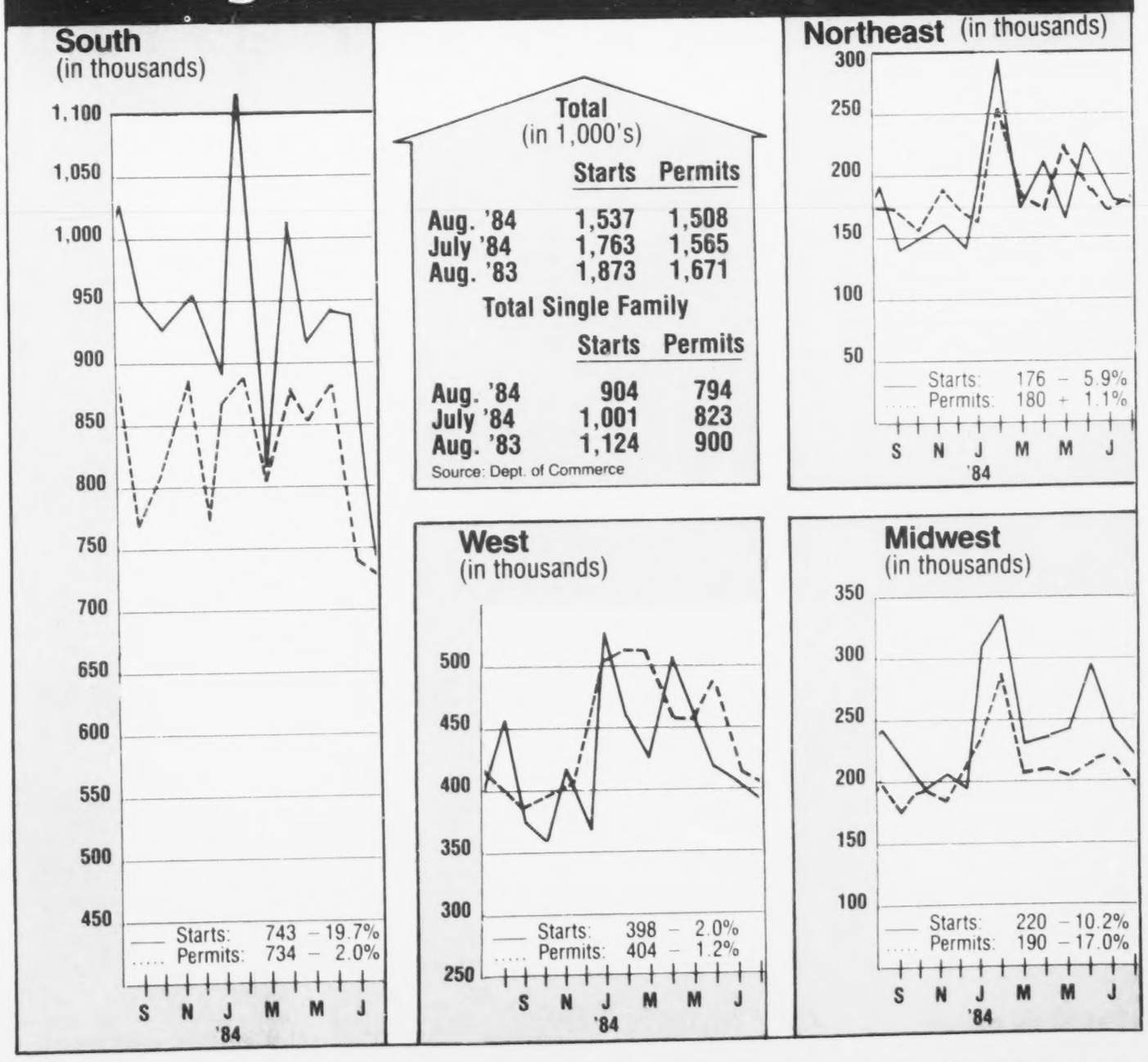
Adjustable rate mortgages (ARM's) which were cushioning the housing market against high interest rates have been rising steadily to a rate of 12.75% in August. So the gap between interest charges for ARM's and fixed-rate loans has narrowed considerably, leaving the home buyer little choice in affordable financing.

All regions showed a decline in starts compared with July. The West dropped by 2%, Northeast by nearly 6%, Midwest by over 10% and the South nearly 20%. The figures for the South are the most worrisome because it is the leading area of residential construction. This year's August figures are a full 20% below last year's. The South contributed 52.5% of all housing starts in July, however, this fell to 48% in August.

Regionally, building permits declined in all but the Northeast which had a small 1.1% increase to 180,000 permits, seasonally adjusted. The South and West remain the leading regions for both housing construction and permits. The South recorded 735,000 permits, a decrease of 2% from July, and the West had 404,000 permits, down 1.2% compared with July's figures.

Affordable financing remains a crucial factor in the housing market. The affordability index, calculated by the National Assn. of Realtors dropped to its lowest level for 10 months in July to 83.3. This means that the average family had only 83.3% of the income needed to qualify for a mortgage covering 80% of a median resale home priced at $74,700.

## August home-building activity




Total housing starts slumped to their lowest point since December 1982, dropping 12.8% from July's figures to a seasonally adjusted 1.54 million units. Total building permits were off too, falling 3.6% to a seasonally adjusted rate of 1.5 million. Although all regions recorded declines in starts the greatest, 19.7%, came in the South.

Compared with August 1983 total housing starts were down by nearly 18% and single family starts by 19.6%.

## SALES & EARNINGS

| Company | Period Ended | Current Sales* | Year-Ago Sales* | % Change | Current Earnings* | Year-Ago Earnings* | % Change |
|---|---|---|---|---|---|---|---|
| Hechinger | 7/28-2nd qtr.<br>7/28-6 mos. | $114,395<br>202,253 | $ 87,748<br>152,494 | 30.4<br>32.6 | $ 6,692<br>10,097 | $ 5,013<br>7,459 | 33.5<br>35.4 |
| Lowe's | 8/31-1 mo. | 140,000 | 116,000 | 20.7 | — | — | — |
| Payless Cashways | 8/25-2nd qtr.<br>8/25-9 mos. | 334,472<br>843,893 | 294,486†<br>714,762† | 13.6<br>18.1 | 12,906<br>27,665 | 12,998<br>28,969 | (0.7)<br>(4.5) |
| Standard Brands | 7/29-2nd qtr.<br>7/29-6 mos. | 84,866<br>162,585 | 82,807<br>150,517 | 2.5<br>8.1 | 6,406<br>11,030 | 6,326<br>9,839 | 1.3<br>12.1 |

*$ in thousands

Source: Company reports

†Year-ago sales are restated to reflect acquisitions of Prime Home Improvement Centers in January and of Somerville Lumber in March on pooling-of-interest basis.

## STOCK PRICES

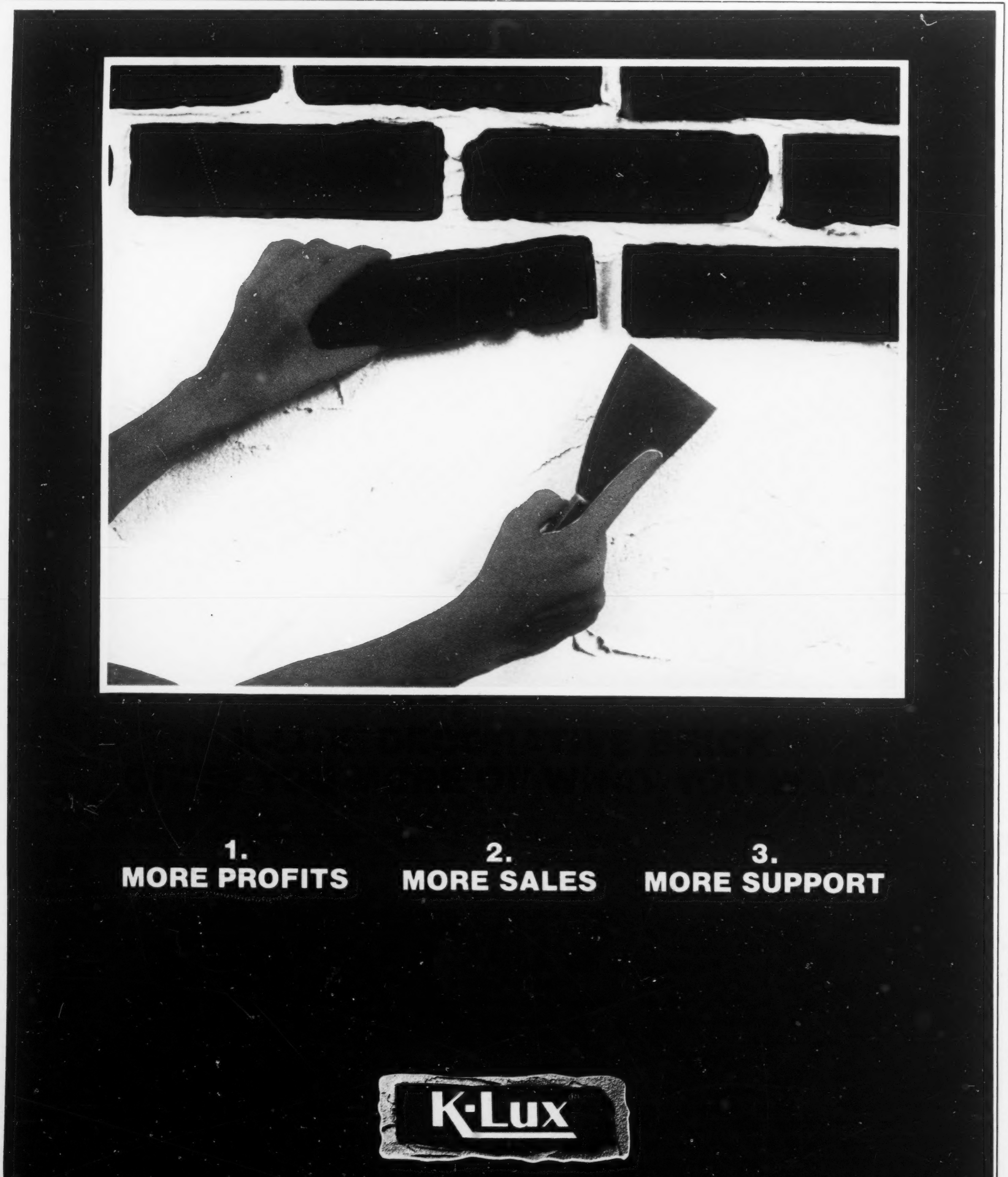
| | | As of 9/18 | 52-week High | 52-week Low | P/E Ratio |
|---|---|---|---|---|---|
| Boise Cascade (NYSE) | | 41 | 45 | 32½ | 13 |
| Edison Bros. Stores (NYSE) [Handyman, Homer's] | | 34½ | 43⅜ | 33¾ | 8 |
| Evans Products (NYSE) [Alamo Ent., Grossman's, Moore's, Hubbard & Johnson, Lindsley] | | 4⅞ | 16 | 4¾ | — |
| Forest City (AMEX) | A | 20¼ | 21 | 13⅝ | — |
| | B | 21½ | 22¼ | 13 | — |
| W. R. Grace (NYSE) [Angels, Cashway, Channel, Handy City, Handy Dan, Orchard] | | 42⅝ | 50⅜ | 36½ | 11 |
| Home Depot (NYSE) | | 15⅜ | 31¾ | 14 | 30 |
| Lowe's (NYSE) | | 21 | 27⅛ | 16¼ | 13 |
| Michigan General (AMEX) [Diamond Lumber] | | 7¾ | 14 | 4⅝ | 78 |
| Pay 'N Pak (NYSE) | | 15¾ | 20 | 12¾ | 14 |
| Payless Cashways (NYSE) [Furrow] | | 16⅞ | 27½ | 13½ | 14 |
| Scotty's (NYSE) | | 14½ | 17 | 11⅜ | 10 |
| Southwest Forest Industries (NYSE) [Knox Lumber] | | 17⅝ | 22½ | 12¼ | — |
| Standard Brands Paint (NYSE) | | 19¾ | 24¼ | 16½ | 11 |

### Nasdaq—over-the-counter stocks

| | | As of 9/18 | 52-week High | 52-week Low | P/E Ratio |
|---|---|---|---|---|---|
| Color Tile | | 16 | 18¼ | 13⅝ | — |
| Hechinger | A | 19¼ | 24¼ | 13½ | — |
| | B | 19 | 24½ | 14 | — |
| Homecrafters Warehouse | | 11½ | 17½ | 11 | — |
| National Lumber | | 5½ | 13¼ | 5¼ | — |
| Pay 'n Save | | 23⅛ | 29¼ | 14⅜ | — |

### Over-the-counter stocks

| | As of 9/18 Bid | As of 9/18 Asked | 52-week High (Bid) | 52-week Low (Bid) |
|---|---|---|---|---|
| Erb Lumber | 18¾ | — | 25¼ | 17 |
| Hines Lumber | 41 | 42 | 41½ | 25½ |
| Home Centers of America | 10¾ | 10⅞ | 15½ | 6⅜ |
| Scotts Seaboard [Scott's] | 1⅞ | 2¼ | 4¾ | ⅝ |
| Wolohan Lumber | 5½ | 5⅝ | 7½ | 4 |




## FINANCIAL NEWS

# Hechinger net income up 34% to $6.7M in 2nd qtr.

LANDOVER, Md. — Hechinger Co. enjoyed what company officials said were record sales and earnings in the second quarter and first half of fiscal 1984.

The company, which runs 43 home centers, had increases in its net income of 34% to $6.7 million, or 37¢ per share. These increases compare with a second quarter, 1983 figure that was 67% over that period in 1982, which in turn was 37% higher than the same quarter in 1981.

Sales for its most recent three-month period were $114.4 million, a gain of 30%.

For the 26-week period ending July 28, Hechinger's earnings jumped 35% to $10.1 million, or 55¢ per share, against sales of $202.3 million, an increase of 33% over the first six months of 1983.

Comparable store sales were reported by company officials to be up 15% for the quarter and 18% for the half, "despite the fact that eight existing stores were impacted by the opening of new Hechinger stores in nearby vicinities," a prepared release stated.

## *Rickel's sales exceed $100M in 2nd quarter*

SOUTH PLAINFIELD, N.J. — For the first time in its history, Rickel Home Centers posted a $100 million quarter in the period which closed July 28.

The 37-unit home center division of Supermarkets General, based in Woodbridge, N.J., saw its quarterly revenue jump 26% to $105.4 million. The chain's first-half sales rose an equivalent percentage and totaled $173.5 million. The corporation does not break out its divisions' quarterly earnings.

So far, Rickel has opened one new home center in Warminster, Pa., this year and, according to reports in the company's quarterly statement, expects to open three more units in the remainder of the fiscal year.

The second quarter for Supermarkets General saw its corporate sales jump 8% to $974.8 million, while the company produced strong net income gains of 20% to $15.7 million.

For the six-month period, SGC posted earnings of $19.9 million, which were marginally up from the same period last year, against sales of $1.86 billion, an 8% rise.

## Homecrafters expects earnings drop based on preliminary data

BIRMINGHAM, Ala. — As a result of general sales "softness," expenses incurred from new store openings, and real estate and construction problems connected with the opening of other units, Homecrafters Centers' second-quarter earnings were expected to drop 17.7% to $500,000, or 18¢ per share, based on preliminary data.

These *pro forma* earnings came from second-quarter sales totaling $43.4 million, which were up 41.4% over the same period last year, but, according to company chairman Georges Hanzi, were about 6% off plan.

The company racked up preopening expenses of $730,000 during the quarter, as it opened two new warehouse units in both Denver and Nashville. The advertising expenses alone during the three-month period accounted for 6.8% of retail sales.

Nevertheless Hanzi was quoted in a prepared statement as being "optimistic" about the rest of the year.

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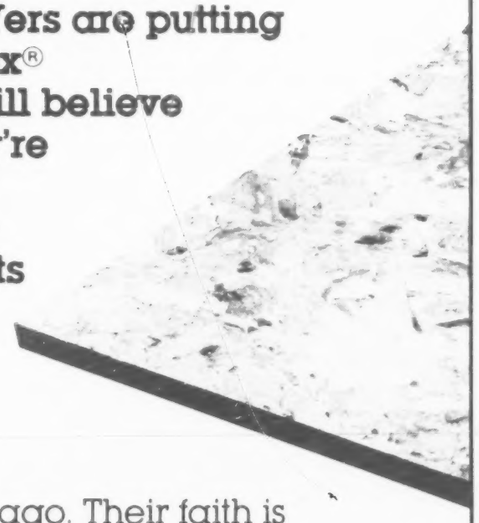

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LUMBER REPORT

# Congress set to deal with vexing timber contracts by session end

NATIONAL REPORT — Congress is expected to deal with the question of crippling Forest Industry timber contracts before the end of the current session.

The House has already approved one bill in committee that is currently being considered in the Senate.

The legislation is aimed at timber producing companies threatened by the high costs of harvesting land on Federal land they hold under contract.

The bill, HR 2838, is sponsored by Sen. Mark Hatfield (R-Ore.) and Rep. James Weaver (D-Ore.).

If approved, it would allow companies to "buy out" up to 55% of the volume they held under contract as of Jan. 1, 1982.

A formula based roughly on the size of a company and the dimension of its problem would determine how much would have to be paid per thousand board feet for the privilege of not cutting trees. The land would then return to the Federal Government for resale.

The Forest Service last year estimated that in the four-state region of Oregon, Washington, northern California and northern Idaho, about 384 purchasers hold 2,441 contracts on 16.6 billion board feet of lumber with a contract value of $4.5 billion.

While paying $35 or $40 per thousand board feet not to harvest timber will be expensive, industry supporters of the legislation point out that paying $300-plus, in stompage costs, in some cases, to harvest the timber would be disasterous.

They argue that many companies required to harvest timber at high contract costs would be driven to bankruptcy, which would destabilize the industry.

The problem developed in the late 1970's when bidding practices and expectations of strong inflation caused lumber companies to drive the cost of stumpage on Federal lands to skyrocketing levels.

With inflation level and lumber prices down, many companies are left holding vast supplies of uneconomical timber that would be unprofitable to harvest.

Last year segments the forest products industry argued among themselves about the merit of supporting a program to aid stricken Northwest producers. By mid-1983 a consensus was reached that help was required. Congressional action was not obtained, however, instead an Executive Order was issued.

When President Reagan issued the order in July 1983, allowing five-year extensions on timber contracts, a portion of the forest products industry felt that the measure did not go far enough.

The President's plan was intended to buy more time for troubled timber harvesters. Instead of being forced to immediately begin cutting trees on Federal lands under contract—which would have meant immediate heavy costs because of high stompage prices—companies could spread the harvest of these lands over five years.

The idea behind the plan was this: Forest Product companies could gradually average stumpage bought at more moderate cost with the expensive contracts. Over time lumber prices were expected to climb while simultaneously the averaging process would make stumpage costs reasonable. The result of this formula was supposed to be profitability.

Critics at the time argued that Government projections were based on rising lumber prices. And while a segment of the industry would be helped, a far greater number of companies would be facing bankruptcy.

Paul Ehinger, an industry consultant, noted soon after approval of the President's plan, "When you're trying to figure out how you're going to average $400 stumpage with $200 stumpage and beat the Canadian's $20 stumpage it's pretty tough."

The premise that lumber prices would rise proved incorrect, at least last year. In July 1983, the month of Reagan's executive order, *Random Length's* framing lumber price composite was $237 per thousand board feet. A year later it had dropped to $183.

And forecasters continue to be bearish about the market which, with occasional blips caused by buying surges, remains flat. Mill overproduction and buyer caution are keeping prices depressed. Recent declines in housing starts do not augur well for the future price trend either.

## FUTURES

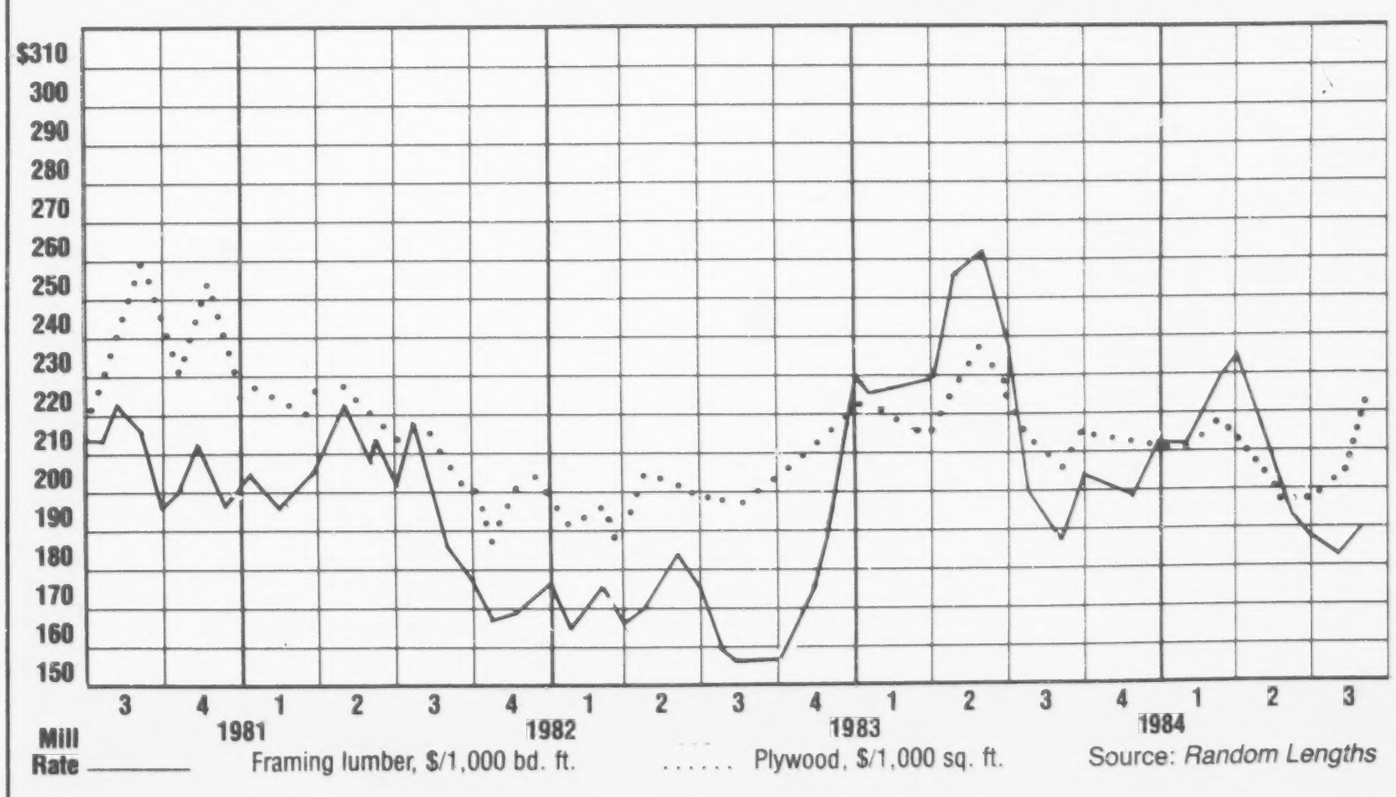
Two weeks ended Sept. 6, 1984

| | High | Low | Close | Previous Week | Open* Interest | Contract High | Contract Low |
|---|---|---|---|---|---|---|---|
| **LUMBER** (CME)—130,000 bd. ft. spruce-pine-fir 2x4's; $ per 1,000 bd. ft. | | | | | | | |
| Sept. '84 | 125.00 | 114.60 | 119.00 | 120.80 | 1,042 | 236.00 | 114.60 |
| Nov. | 132.60 | 121.50 | 125.00 | 127.60 | 4,142 | 229.00 | 121.40 |
| Jan. '85 | 143.20 | 132.50 | 136.90 | 138.90 | 1,390 | 221.30 | 131.70 |
| March | 151.90 | 141.80 | 145.90 | 147.10 | 742 | 220.40 | 139.30 |
| May | 160.50 | 151.00 | 154.80 | 155.50 | 241 | 225.00 | 147.00 |
| July | 167.50 | 160.10 | 164.00 | 164.50 | 247 | 230.50 | 153.00 |
| Sept. | 172.00 | 165.00 | 168.10 | 169.70 | 175 | 197.50 | 157.50 |

Total Contract Vol. (Through 9/6): 17,041 — Previous Two Weeks: 22,136
Total Open Interest (As of 9/6): 8,355 — Previous Week: 8,125
Cash Price: $127.40 — Previous Week: $127.40 — Year Ago: $154.84

CME—Chicago Mercantile Exchange — CBT—Chicago Board of Trade
*Figures for Thursday, Sept 6.
Open Interest is the number of outstanding contracts for each delivery month not liquidated by an offsetting transaction or fulfilled by delivery.

## Composite lumber/plywood price profile




Source: *Random Lengths*

The lumber composite prices strengthened somewhat in August because of a rally sparked by a Federal Reserve signal in late July that the money supply would not be tightened.

On the optimistic notion that interest rates might therefore decline, the framing lumber composite rose to $190 per thousand board feet from $183 and the plywood composite reached $224 per thousand sq. ft. from $204.

The framing and plywood composite numbers are based, respectively, on Random Length's weighted averages of nine key lumber and seven key plywood items.